

## First-Time Home Buyer Tax Credit Extension and expansion of the program in 2010

The Worker, Homeownership, and Business Assistance Act of 2009 extends the existing tax credit of up to \$8,000 for qualified first-time home buyers until April 30, 2010.

It also expands the program by granting up to \$6,500 credit for certain qualified current home owners purchasing a new or existing home between November 7, 2009, and April 30, 2010.

- The \$8,000 tax credit is for first-time home buyers only. For the tax credit program, the IRS defines a first-time home buyer as someone who has not owned a principal residence during the three-year period prior to the purchase.
- There is an additional tax credit for repeat or move-up buyers. Purchasers can receive up to a \$6,500 incentive to buy their next home, if they've lived in the same principal residence for 5 consecutive years during the 8-year period that ends when the new home is purchased.
- For homes purchased in 2009 or 2010, the credit does not have to be paid back unless the home ceases to be the taxpayer's main residence within a three-year period following the purchase.
- The tax credit is equal to 10 percent of the home's purchase price up to a maximum of \$8,000.
- The credit extends the deadline to purchase a home by April 30, 2010. If a binding sales contract is signed by April 30, 2010, home purchases completed on or before June 30, 2010, will qualify.
- For sales after November 6, 2009, income limits for the full \$8,000 credit are \$125,000 for single taxpayers and \$225,000 for married taxpayers filing joint returns.
- Joint filers with income up to \$245,000 and single filers up to \$145,000 are eligible for a reduced credit.

- The tax credit is refundable, meaning it can be claimed even if there is little or no income tax paid. The federal government will issue a refund check back to the purchaser for the difference.

The following information has been edited for length and is used with permission from the National Association of Home Builders' website, [www.FederalHousingTaxCredit.com](http://www.FederalHousingTaxCredit.com).

### Who is eligible to claim the \$8,000 tax credit?

First-time home buyers purchasing any kind of home—new or resale—are eligible for the tax credit. To qualify for the tax credit, a home purchase must occur on or after January 1, 2009, and on or before April 30, 2010. For the purposes of the tax credit, the purchase date is the date when closing occurs and the title to the property transfers to the home owner.

However, the law also allows home sales occurring by June 30, 2010, to qualify, provided they are due to a binding sales contract in force on or before April 30, 2010.

### What is the definition of a first-time home buyer?

The law defines "first-time home buyer" as a buyer who has not owned a principal residence during the three-year period prior to the purchase. For married taxpayers, the law tests the home ownership history of both the home buyer and his or her spouse.

For example, if you have not owned a home in the past three years but your spouse has owned a principal residence, neither you nor your spouse qualifies for the first-time home buyer tax credit.

Unmarried joint purchasers, however, may allocate the credit amount to any buyer who qualifies as a first-time buyer, such as may occur if a parent jointly purchases a home with a son or daughter. Ownership of a vacation home or rental property not used as a principal residence does not disqualify a buyer as a first-time home buyer.



**Gavin Higashi**  
303-419-2523  
[ghigashi@ltgc.com](mailto:ghigashi@ltgc.com)

2921 W. 120th Ave.  
Suite 110  
Westminster, CO 80234  
Office 303-469-4711  
Fax 303-469-4238  
[www.LTGC.com](http://www.LTGC.com)

**How is the amount of the tax credit determined?**

The tax credit is equal to 10 percent of the home's purchase price up to a maximum of \$8,000.

**Are there any income limits for claiming the tax credit?**

Yes. For sales occurring after November 6, 2009, the income limit for single taxpayers is \$125,000; the limit is \$225,000 for married taxpayers filing a joint return.

The tax credit amount is reduced for buyers with a modified adjusted gross income (MAGI) of more than \$125,000 for single taxpayers and \$225,000 for married taxpayers filing a joint return.

The phase-out range for the tax credit program is equal to \$20,000. That is, the tax credit amount is reduced to zero for taxpayers with MAGI of more than \$145,000 (single) or \$245,000 (married) and is reduced proportionally for taxpayers with MAGIs between these amounts.

**The income limits for claiming the tax credit were raised when the tax credit was extended. Are the higher limits retroactive?**

No. The new income limits are only applicable to purchases occurring after November 6, 2009. The income limits for sales occurring on or after January 1, 2009, and on or before November 6, 2009, are \$75,000 for single taxpayers and \$150,000 for married couples filing jointly.

**What is "modified adjusted gross income"?**

Modified adjusted gross income or MAGI is defined by the IRS. To find it, a taxpayer must first determine "adjusted gross income" or AGI. AGI is total income for a year minus certain deductions (known as "adjustments" or "above-the-line deductions"), but before itemized deductions from Schedule A or personal exemptions are subtracted. On Forms 1040 and 1040A, AGI is the last number on page 1 and first number on page 2 of the form. For Form 1040-EZ, AGI appears on line 4 (as of 2007).

**If my modified adjusted gross income (MAGI) is above the limit, do I qualify for any tax credit?**

Possibly. It depends on your income. Partial credits of less than \$8,000 are available for some taxpayers whose MAGI exceeds the phase-out limits.

**How is this home buyer tax credit different from the tax credit that Congress enacted in early 2009?**

The tax credit's income limits were increased,

the documentation requirements were tightened, and the program's deadlines were extended.

**How do I claim the tax credit? Do I need to complete a form or application?**

You claim the tax credit on your federal income tax return. Specifically, home buyers should complete IRS Form 5405 to determine their tax credit amount, and then claim this amount on Line 67 of their 1040 income tax return for 2009 returns (line 69 of the 1040 income tax form for 2008 returns). No other applications or forms are required, and no pre-approval is necessary. However, you will want to be sure that you qualify for the credit under the income limits and first-time home buyer tests. Note that you cannot claim the credit on Form 5405 for an intended purchase for some future date; it must be a completed purchase. Home buyers must attach a copy of their HUD-1 settlement statement to Form 5405 as proof of the completed home purchase.

**What home types qualify for the tax credit?**

Any home that will be used as a principal residence will qualify for the credit. This includes single-family detached homes, attached homes like townhouses and condominiums, manufactured homes (also known as mobile homes), and houseboats. The definition of principal residence is identical to the one used to determine whether you may qualify for the \$250,000 / \$500,000 capital gain tax exclusion for principal residences.

**I read that the tax credit is "refundable." What does that mean?**

The fact that the credit is refundable means that the home buyer credit can be claimed even if the taxpayer has little or no federal income tax liability to offset. Typically this involves the government sending the taxpayer a check for a portion or even all of the amount of the refundable tax credit.

**Is a tax credit the same as a tax deduction?**

No. A tax credit is a dollar-for-dollar reduction in what the taxpayer owes. That means that a taxpayer who owes \$8,000 in income taxes and who receives an \$8,000 tax credit would owe nothing to the IRS. A tax deduction is subtracted from the amount of income that is taxed.

*Disclaimer: This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is distributed with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional service. If legal or accounting advice or other expert assistance is required, the services of a competent professional should be sought.*

© Copyright, 2010, by Land Title Guarantee Company

